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## **European Union**

### **Oilseeds and Products**

## **EU promotion of the use of biofuels for transport 2001**

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#### **Report Highlights:**

**A proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport has been issued. The proposal will be published in September 2001. The European Commission sees the increased production of raw materials for biofuels as contributing to the multi-functionality of agriculture, but has no intention to apply direct agricultural policy measures.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
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## Summary

Directorate-General Transport and Energy of the European Commission has drafted a proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport. The proposal is expected to be published in mid-September 2001, but the final adoption of the Directive may take a long time after that. In essence, the proposed Directive aims at increasing the use of biofuels for transport within the EU by requiring that a minimum percentage of the total transport fuels sold in each Member State be biofuels in pure or blended form. By 2005, the minimum share of biofuels should be 2 percent (calculated on the basis of energy content), and should rise gradually to 5.75 percent by the year 2010. Until 2009, Member States are free to decide how the minimum percentage level will be met, i.e. in the form of "pure" biofuels for dedicated vehicles, or by blending in biofuels with fossil fuels. As of 2009, the Directive sets a minimum percentage of biofuel blended in gasoline and diesel. Between 2009 and 2010, the minimum "blend-in percentage" should rise from 1 percent to 1.75 percent. The proposed directive stems from the realization that the rate of dependence on external energy sources in the EU continues to rise. Moreover, appropriate measures are needed if the EU wants to keep international and domestic commitments regarding respect for the environment.

## Background

Studies have shown that, in the absence of any measures, EU dependence on external energy sources will rise from 50 percent today to 70 percent by the year 2030. For the transport sector, one of the bigger users of energy, oil dependency is nearly 100 percent. The promotion of the use of biofuels in this sector would contribute to a greater security of energy supply, whereby the raw materials for biofuels would primarily be sourced from the domestic market. Biodiesel and bioethanol constitute the two major products to be used as biofuel in the EU. Other products are: biogas, biomethanol, biomethylester, and biooil. Given that vegetable oils (from rapeseed, sunflower seed, or soybeans) and other arable crops (cereals, sugar beets) are the raw materials in the manufacture of biodiesel and bioethanol, respectively, the envisaged promotion measures will benefit EU agricultural production. The European Commission sees this increased production of raw materials for biofuels as contributing to the multi-functionality of agriculture, and providing a stimulus to the rural economy through the creation of new sources of income and employment. From an environmental point of view, the promotion measures for biofuels would fit well into a number of commitments which the EU has undertaken both on an international level (Kyoto protocol), and on its own initiative. For example, in its resolutions of June 8, 1998 and December 5, 2000, the EU Council endorsed the EU Commission's Strategy and Action Plan for Renewable Energy Sources, and requested specific measures in the biofuels sector.

## Contents of the proposal

The proposal for a Directive of the European Parliament and of the Council on the promotion of the use of biofuels for transport was drafted by Directorate-General Transport and Energy of the European Commission, and is expected to be published in mid-September 2001. By 2005, each EU Member State has to ensure that 2 percent of all gasoline and diesel sold for transport on its

market is in the form of biofuels (calculations done on the basis of energy content). The percentage share should rise by 0.75 percent annually in order to reach 5.75 percent by the year 2010. Given that the optimum method for increasing the share of biofuels in each of the EU Member States depends on the availability of resources and raw materials, the EU leaves it to the national policies to promote biofuels and define adequate tax measures. As a result, the proportion of biofuels used in pure or in blended form may differ considerably among EU Member States. At present, these differences exist already between, for instance, France using blends of 5 percent biofuel in conventional diesel fuel, and Germany using 100 percent pure biodiesel in adapted vehicles. Until 2009, Member States are free to decide how the minimum percentage level will be met, i.e. in the form of "pure" biofuels for dedicated vehicles, or by blending in biofuels with fossil fuels. As of 2009, the Directive sets a minimum percentage of 1 percent of biofuel to be blended in gasoline and diesel. By 2010, this minimum "blend-in percentage" should rise to 1.75 percent.

### **Implementation of the proposed Directive**

It is difficult to predict how long it will take to adopt the final Directive and the implementing regulations. Given, however, that the co-decision procedure will be used, it will be a long time before the entry into force. Quantitative commitments set out in the proposed Directive will not apply before 2005, in order to allow sufficient time to Member States to establish the necessary production facilities. At present, only 6 Member States are involved in the production of biofuels: France, Austria, Germany, Italy, Spain, and Sweden. Large differences exist, however, in the way bio-energy programs have been set up in the different countries. Much of this discrepancy is attributed to the different fiscal measures which have been taken. The Swedish government has set up a support program for research and development of ethanol from wood biomass, aiming at making bioethanol from wood competitive in 2004. Austria has been a pioneer in establishing a bio-energy program, starting up already in 1991 one of the first biodiesel production plants in the world. Germany, which accounted for about 15 percent of EU biofuel production in 1999, has rapidly expanded biodiesel production capacity over the last few years, with many additional projects planned in the near future.

The potential for biofuels in the EU will depend on a number of economic and technological factors, combined with the set-up of adequate government measures to support the growth of biofuel production. At current raw material prices, the gap in production cost between biodiesel and petroleum-based diesel is about EUR 200-250/1000 litre (\$ 175-220/1000 litre), to the competitive advantage of conventional diesel. This gap narrows in case the international crude oil price increases, or when raw material prices for biofuels decrease. Also, technical factors and other cost factors such as the price obtained for by-products generated during biofuel production, play a role.

The gradual rise in EU biofuel production recorded over the last couple of years has only been possible because of the proactive measures, both fiscal and promotional, taken in the various Member States concerned. Fuel tax systems are very fragmented throughout the EU, and large differences exist among EU Member States with regard to specific tax exemptions given for different fuel specifications. Greater EU harmonization in this field would bring stability to the

market and improve conditions for growth of the biofuels sector in general. In order to achieve this harmonization, the European Commission has also presented a legislative proposal for a Council Directive amending Council Directive 92/81/EC. Council Directive 92/81/EC of October 1992 sets a framework for the harmonization of the structures of excise duties on mineral oils.

It becomes clear from the above that, notwithstanding the fact that agriculture plays an important role in the development of an EU biofuel market, the EU authorities have no intention to apply direct agricultural policy measures. Stimuli for growth of the biofuel market will be provided through fiscal measures and rural development programs. In the explanatory memorandum to the proposed Directive, reference is also made to the relevance of the initiative to countries in Central and Eastern Europe which are candidates for EU membership. Given the large share of agricultural activity and the enormous potential for sustainable farming of biofuels in these countries, biofuel production could contribute to agricultural restructuring and help meet environmental challenges.